

Minutes of the Meeting of the Lottery Advisory Commission
August 18, 2004

Attendance

A meeting of the Lottery Advisory Commission was held from 10:00 a.m. to 12:00 noon on Wednesday, August 18, 2004, in the Roughrider Room in the State Capitol in Bismarck. Representing the Commission were Chairman RaeAnn Kelsch (by telephone), Representative Lois Delmore, Senator Jerry Klein, Mr. Laurel Thoreson, and Ms. Darlene Watne. Representing the North Dakota Lottery were Mr. Chuck Keller, Director, Ms. Danielle Schaefer, Administrative Staff Officer, Ms. Tammy Backhaus, Customer Relations Specialist, and Ms. Eileen Walsh, Sales and Marketing Specialist. Also, Mr. Paul Ostendorf, Regional Manager, and Ms. Pam Lee, Account Manager, of Scientific Games International, Inc. (SciGames) participated in the meeting. No member of the public attended.

Commissioner Delmore made a motion to approve the minutes of the May 18, 2004, and June 18, 2004, meetings. Commissioner Watne seconded the motion. The motion passed 5-0.

Mr. Keller explained a conflict in the lottery law regarding the periods in which members are appointed and in which their terms end. All members were appointed for 1 to 3 year terms effective July 1, 2003, and the Commission selected a chairman at its first meeting to serve for one year. By law, terms expire on December 31. Mr. Keller said that he would propose a law change to synchronize any necessary provisions of law. The Commission discussed reappointing Ms. RaeAnn Kelsch as chairman through December 31, 2004. The commission may then appoint a new chairman effective January 1, 2005, and continue appointments on a calendar year basis thereafter.

Commissioner Delmore moved to reappoint Ms. RaeAnn Kelsch as chairman through December 31, 2004. Commissioner Klein seconded the motion. The motion passed 5-0.

Ms. Backhaus discussed the lottery retailer licensing renewal process. Renewal letters, including revised licensing agreements, were mailed to the retailers and many have already been returned to the Lottery. About twenty-five retailers have not met the Lottery's minimum sales expectations of an average of \$250 per week and will be notified of possible conditional licenses. The lottery will offer its assistance to bring these retailers' sales up to the minimum sales amount.

Ms. Backhaus discussed the role of the informal Lottery Advisory Board. The Board will be comprised of volunteers (retailers) who have expressed interest in participating on the Board. Ms. Backhaus would be chair the Board. She distributed a document titled "Role of the Lottery Advisory Board" that described the Board's responsibilities, and distributed a list of retailers who she recommended be approved to serve on the Board. The primary purpose of the Board would be to make recommendations and suggest ideas to the Lottery. The Board would meet on a quarterly or as-needed basis.

Ms. Walsh gave an overview of the June 24 Hot Lotto launch ceremony held at the M&H Convenience Store in Mandan and plans for the September 23, 2004 launch of Wild Card 2. The new game may be launched in three or four cities. Ms. Walsh stated that she has been communicating with Allegiant Airlines to co-sponsor the launch event and secure tickets to Las Vegas that would be given away on the launch day. Members of the Commission will be asked to be in attendance at the launch sites.

Ms. Walsh discussed the Power Play free ethanol fuel promotion. The Lottery is receiving much media attention from the promotion but it has not significantly increased sales of Power Play. There was a \$25,000 Power Play winner and play is expected to increase.

Mr. Keller and Ms. Walsh discussed the advertising and marketing budget. The initial budgeted funds may be used up by December 31, 2004. The total sales amount of lottery tickets during the 2003-05 biennium was projected to be \$11 million. The initial advertising budget of \$330,000 was based on 3% of sales. Mr. Keller stated that although the Lottery does not have a fixed advertising budget, the Lottery would limit any advertising and marketing expenditures to 3% of total sales. Commissioner Klein asked whether the Lottery could stay within 3% of the total sales. Ms. Walsh responded that the Lottery could.

Commissioner Delmore asked how many games can be introduced before the market becomes saturated. Mr. Keller replied that the Lottery's ultimate product mix would provide players with games that have a variety of grand prizes and odds. He said the range of grand prizes should be from \$20,000 (2by2) to \$10 million (Powerball) and the odds would be 1:3.6 (2by2) to 1:36. Mr. Keller stated that 6 games should be adequate. Commissioner Klein asked if having 6 games would affect Powerball or Hot Lotto. Mr. Keller responded that to some degree, sales have been diverted from Powerball to Hot Lotto, but overall, sales have increased. He indicated that many people have conveyed to him that they would like to play lottery games but would prefer to play games with better odds. Mr. Keller said that although there was an attempt during the 2003 legislative session to limit the Lottery to one game, the Lottery needs multiple games to maximize net proceeds for the state.

Ms. Schaefer discussed the retailers' compliance with The Americans with Disabilities Act. There has been very little negative feedback from retailers on this issue. Out of 40 license renewal applications received, only about 5 indicated that they were not in compliance. For the Lottery to comply with Title II, at least 1 retailer in every community needs to be in compliance. The Lottery reminded the retailers that they already have an obligation to comply with the ADA.

Mr. Keller discussed plans for a fourth game. The Lottery was considering launching the 2by2 game in February 2005, but Mr. Keller expressed that the Multi-state Lottery Association (MUSL) is currently developing another multi-state game (Match 6) that has a very unique concept and the Lottery may launch the new game instead. The MUSL may launch this new game in early 2005.

Mr. Keller reviewed the critical success factors for judging the level of success of the Lottery. The Lottery has received favorable press coverage in the last several weeks since the Lottery transferred \$1.43 million to the State General Fund. The transfer was symbolic because it was the exact amount forecasted for the general fund for the entire 2003-05 biennium. About another \$75,000 will be transferred to the general fund, in addition to \$139,511 that has been transferred to the problem gambling services fund. Also, about \$93,000 will be transferred to the MUSL to cover the Lottery's obligation to the Powerball and Hot Lotto prize reserve pools.

The State Auditor's office is presently auditing the Lottery. The audit should conclude by September 30.

Mr. Paul Ostendorf stated that Scientific Games International is pleased with its partnership with the Lottery and has placed a field service manager in North Dakota.

Mr. Keller stated that a big promotion is planned for the 10 millionth ticket that is sold.

The Commissioners discussed the possibility of their immediate family members who live in the same household as being able to play the lottery. Mr. Keller said that the Commissioners and their immediate family members are prohibited from playing.

Commissioner Delmore made a motion to adjourn the meeting. Commissioner Klein seconded the motion. The motion passed 5-0.